



DEPARTMENT OF ACCOUNTANCY

ACCOUNTING 2B

FINAL ASSESSMENT OPPORTUNITY 7 NOVEMBER 2015

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MARKS: 125
TIME: 150 MINUTES

MODERATOR: MS Z PATEL

- *THE ASSESSMENT OPPORTUNITY PAPER CONSISTS OF 3 QUESTIONS AND 7 PAGES (front page included).*
- *SILENT NON-PROGRAMMABLE CALCULATORS ARE ALLOWED.*
- **SHOW ALL CALCULATIONS.**
- *START EVERY NEW QUESTION AT THE TOP OF A PAGE.*
- *ANSWERS CONTAINING TIPPEX OR PENCIL WILL NOT QUALIFY FOR REMARKING.*
- *CROSS OUT OPEN SPACES AND EMPTY PAGES.*

QUESTION 1

(50 MARKS)
(60 MINUTES)

You have been presented with the following abridged financial statements of Harry Ltd and Steward Ltd for the reporting period ended 30 June 2015.

STATEMENT OF FINANCIAL POSITION FOR THE REPORTING PERIOD ENDED 30 JUNE 2015		
	Harry Ltd	Steward Ltd
ASSETS		
Buildings	2 700 000	1 500 000
Plant and equipment	1 850 000	800 500
Cost price	2 800 000	1 750 000
Accumulated depreciation	(950 000)	(949 500)
Investment in Steward Ltd at cost price:		
200 000 ordinary shares	1 500 000	
90 000 10% preference shares	150 000	
Loans to Steward Ltd	380 000	
Inventories	1 105 000	753 000
Trade receivables	575 000	368 000
Bank	630 000	80 000
	8 890 000	3 501 500
EQUITY AND LIABILITIES		
R5 - ordinary share capital	5 000 000	1 250 000
R1 - 10% preference share capital		300 000
Distributable reserve	570 000	275 000
Retained earnings	2 969 000	1 133 500
Loan from Harry Ltd		380 000
Trade payables	351 000	163 000
	8 890 000	3 501 500

STATEMENTS OF CHANGES IN EQUITY FOR THE REPORTING PERIOD ENDED 30 JUNE 2015		
	Retained earnings	
	Harry Ltd	Steward Ltd
Balance at 1 July 2014	1 443 250	546 000
Profit for the year	1 255 750	482 500
Transfer to distributable reserve	(70 000)	(50 000)
Dividend paid - Ordinary dividend	(200 000)	(25 000)
- Preference dividend		(30 000)
Balance at 30 June 2015	2 969 000	1 133 500

QUESTION 1 (CONTINUED)

STATEMENTS OF COMPREHENSIVE INCOME FOR THE REPORTING PERIOD ENDED 30 JUNE 2015		
	Harry Ltd	Steward Ltd
Revenue	5 564 750	1 064 000
Cost of sales	(3 200 000)	(205 000)
Gross profit	2 364 750	859 000
Other income	316 000	32 000
Net operating expenses	(997 000)	(312 500)
Profit before tax	1 683 750	578 500
Tax	(428 000)	(96 000)
Profit for the year	1 255 750	482 500

ADDITIONAL INFORMATION:

- On 1 February 2012 Harry Ltd acquired an interest in the ordinary shares of Steward Ltd. On that date the equity of Steward Ltd consisted of:

Ordinary share capital (R5 shares)	1 250 000
Distributable reserve	100 000
Retained earnings	280 000
- Since acquisition date, Steward Ltd sells inventory to Harry Ltd at cost plus 25%. The following inventory purchased from Stewart Ltd was on hand on the following dates:

1 July 2014	R15 000
30 June 2015	None
- Total intra-group sales for the current reporting period ended 30 June 2015 amounted to R875 000.
- On 1 July 2014, the management of Steward Ltd sold equipment with a carrying amount of R86 000 on that date for R118 000 to Harry Ltd. Depreciation is written off using the straight line method. The remaining useful life was estimated to be 4 years on date of sale. This profit on sale was included in the line item "Other income".
- On 1 April 2015 Steward Ltd sold 90 000 of its preference shares to Harry Ltd. Harry Ltd paid R150 000 for the shares.
- Steward Ltd declared and paid ordinary and preference dividends during the current reporting period. Harry Ltd included their share of the dividends declared and paid by Steward Ltd (included in "Other income").
- Harry Ltd accounts for its investments in subsidiaries in accordance with the cost method.
- It is the accounting policy of Harry Ltd to measure any non-controlling interests in the acquiree at their proportionate share of the acquiree's identifiable net assets at the acquisition date.
- Assume that the identifiable asset acquired and the liabilities assumed at acquisition date are shown at their acquisition-date fair values, as determined in terms of IFRS 3, *Business Combinations*.

PLEASE TURN PAGE OVER FOR REQUIRED INFORMATION

QUESTION 1 (CONTINUED)

REQUIRED:

- 1.1 Prepare the necessary pro forma consolidation journal entries (relating to the intra-group transactions **ONLY**) for the reporting period ended 30 June 2015. **(10)**
 - 1.2 Prepare the analysis of the owner's equity of the ordinary shares of Steward Ltd for the reporting period ended 30 June 2015. **(15)**
 - 1.3 Prepare the analysis of the owner's equity of the preference shares of Steward Ltd for the reporting period ended 30 June 2015. **(5)**
 - 1.4 Prepare the Consolidated Statement of Comprehensive Income of Harry Ltd and its subsidiary for the reporting period ended 30 June 2015. **(10)**
 - 1.5 Prepare the Consolidated Statement of Changes in Equity of Harry Ltd and its subsidiary for the reporting period ended 30 June 2015. **(10)**
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- (50)**

NOTE: Total columns are NOT required.

QUESTION 2

(20 MARKS)
(24 MINUTES)

The following is an abridged statement of comprehensive income of Autostrada Ltd for the reporting period ended 31 March 2015:

	2015	2014
	R	R
Profit before dividends and tax	3 125 000	2 250 000
Dividends received	225 000	250 000
Profit before tax	3 350 000	2 500 000
Tax expense	935 000	700 000
Profit for the period	2 415 000	1 800 000
Other comprehensive income		
Mark-to-Market reserve	-	275 000
Total comprehensive profit for the period	2 415 000	2 075 000

Additional Information

1. The issued ordinary share capital of Autostrada Ltd on 1 April 2013 was 2 000 000 shares of R1 each, and 400 000 non-cumulative 12% non-redeemable preference shares issued at R3 each.
2. In order to fund the company's capital expenditure program the company issued an additional 500 000 shares for cash on 1 July 2013.
3. On 1 August 2014 the company made a capitalization issue of three shares for every ten held on 31 July 2015.
4. On 31 September 2014 Autostrada Ltd decided to issue an additional number of non-redeemable preference shares. They issued 500 000 10% cumulative non-redeemable preference shares at R3 each.
5. On 31 December 2014 a rights issue was made of two ordinary shares for every 5 ordinary shares held on that date, issued at fair value.
6. The company bought back 250 000 of its issued ordinary shares at a premium of R6 per share on 1 January 2015.
7. Dividends of R 1 200 000 (2014 – R1 050 000) were paid to ordinary shareholders on 31 March 2015. Dividends were paid to the preference shareholders on 31 March 2015.

REQUIRED:

- a) Present and disclose earnings per share in the financial statements of Autostrada Ltd for the reporting period ending 31 March 2015 to comply with the minimum requirements of the Companies Act and IFRS. (17)
- b) Present dividends per share in the financial statements of Autostrada Ltd for the reporting period ended 31 March 2015 to comply with the minimum requirements of the Companies Act and IFRSs. (3)

QUESTION 3

(55 MARKS)
(66 MINUTES)

Greys Ltd is a manufacturer and retailer of high quality medical equipment. The senior accountant responsible for the preparation of the end of year management accounts has unfortunately taken ill. The financial director requests your assistance to finalise the end of reporting period accounts.

The following balances appeared in the records of Greys Ltd on 31 December 2015:

	Note	R
Land at valuation - 1 December 2015	1	370 000
Vehicle 1 at carrying amount – 31 December 2015	3	30 000
Inventories	7	??
Bank		7 000

ADDITIONAL INFORMATION:

1. It is company policy to revalue the land at replacement value every three years by using an independent appraiser. The following information is available:

	R
Purchase price – 25 December 2009	350 000
Revaluation - 25 December 2012	20 000
Revaluation - 25 December 2015	30 000
	400 000

2. Greys currently owns a factory building in Industria, Johannesburg. Due to repeated burglaries and problems with security, management decided on 1 October 2015 to sell the factory building that was purchased for R684 000 (incl. VAT) on 1 September 2013 for R100 000 (excl. VAT). The building required some repair work before it could be marketed for sale. Repair work was completed on 1 November 2015. The factory building is depreciated at 10% on the reducing balance method and has a residual value of R100 000 (excl. VAT). The building remained unsold at year end.

The fair value and transaction costs were as follows:

Date	Fair value	Transaction cost
1 October 2015	350 000	2 850 (incl. VAT)
1 November 2015	200 000	3 990 (incl. VAT)

3. Vehicle 1 was purchased and put into use on 31 October 2013 at a purchase price of R68 400 (incl. VAT). During the board meeting held on 15 June 2015, management decided to change the depreciation method on the vehicle from the straight-line method over five years, to the kilometres travelled. The estimated kilometre reading over the total expected life of the vehicle is 100 000km. For this purpose, the following information was collected by the transport manager:

Reporting Period	Odometer reading
31 December 2013	20 000 km
31 December 2014	50 000 km
31 December 2015	80 000 km

QUESTION 3 (CONTINUED)

4. Inventories on hand consist of:

	Cost	Net realisable value
	R	R
Raw materials	16 000	17 000
Work in progress	47 000	44 000
Finished products	?	?

- 4.1 The following information is provided with respect to finished products:

	R
Manufacturing cost per unit	96
Delivery costs to customers per unit	16
Storage cost	2
VAT	10
Abnormal wastage per unit	3
Selling price per unit	?

- 4.2 There were 1 500 units of finished products on hand at 31 December 2015.
 4.3 The selling agents' commission is 20% of the selling price.
 4.4 Selling price is 25% on cost.
 4.5 Greys Ltd values its inventories at the lower of cost, measured on the first-in-first-out basis, or net realisable value.

5. During January 2016 an electrical shortage caused a fire in the warehouse. Damage amounted to R200 000, R80 000 of which was for damage to inventory. The rest was damage to the warehouse. The company's insurance policy does not cover such an occurrence and the claim was rejected by the insurance company.
6. A meeting will be held on the 31 March 2016 to authorise the current period's financial statements for issue.

REQUIRED:

- a) Present the **assets only section** as it should appear in the Statement of Financial Position for Greys Ltd for the reporting period ended 31 December 2015. (5)
- b) **Disclose the following notes** to the Statement of Financial Position for Greys Ltd for the reporting period ended 31 December 2015 to comply with *International Financial Reporting Standards (IFRS)*.
- Property, plant and equipment
 - Inventory
 - Adjusting / Non adjusting events
 - Change in accounting Estimate
 - Non-current assets held for sale

(50)

Please note:

- Only the notes in relation to the assets are required.
- Notes on the **accounting policy** are **not** required.
- Comparative figures are **not** required.
- Shows **all** your calculations clearly.